

AR25



1965

ANNUAL REPORT • FRUEHAUF TRAILER COMPANY OF CANADA LIMITED





FINANCIAL HIGHLIGHTS

	1965	1964
Net Sales.....	\$19,348,156	\$14,867,023
Earnings before Taxes on Income.....	2,467,028	1,571,488
Per cent to Sales.....	12.8	10.6
Net Earnings.....	1,182,028	804,488
Per Share.....	1.31	.89
Net Assets (Book Value) per Share.....	11.91	10.64
Ratio of Current Assets to Current Liabilities.....	4.6 to 1	6.3 to 1
Number of Shareholders.....	357	355

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of the Fruehauf Trailer Company of Canada Limited will be held on Thursday, April 21, 1966 at 2.30 p.m. (Toronto Time) at the Executive Offices, 2450 Stanfield Road, Dixie, Ontario.

Proxies will be solicited from Shareholders when the Notice of Annual Meeting and Proxy Statement are mailed on or about April 1, 1966.

DIRECTORS

H. E. FOULKROD, Detroit, Michigan

W. E. GRACE, Detroit, Michigan

R. D. ROWAN, Detroit, Michigan

E. L. RUSHMER, Detroit, Michigan

R. J. TELFORD, Toronto, Ontario

OFFICERS

W. E. GRACE, *President*

R. J. TELFORD, *Vice President*

W. T. McDOUGALL, *Treasurer*

E. L. RUSHMER, *Secretary*

N. A. RYAN, *Assistant Treasurer & Assistant Secretary*

A. PURDON, *Assistant Secretary*

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY, LIMITED, Toronto and Montreal

AUDITORS

TOUCHE, ROSS, BAILEY & SMART, Toronto, Ontario

SOLICITORS

BORDEN, ELLIOT, KELLEY & PALMER, Toronto, Ontario



REPORT ON OPERATIONS—1965

TO OUR SHAREHOLDERS:

In 1965, for the second successive year, sales and pre-tax earnings were the highest in our history. Total sales of \$19,348,156 represent an increase of more than 30% over the previous peak volume year, 1964, while pre-tax earnings of \$2,467,028 were increased by an even greater percentage, being 57% above the previous fiscal period. Net profit of \$1,182,028, after income tax provision, is equal to 6.1% of sales and a return of 12.3% on net investment.

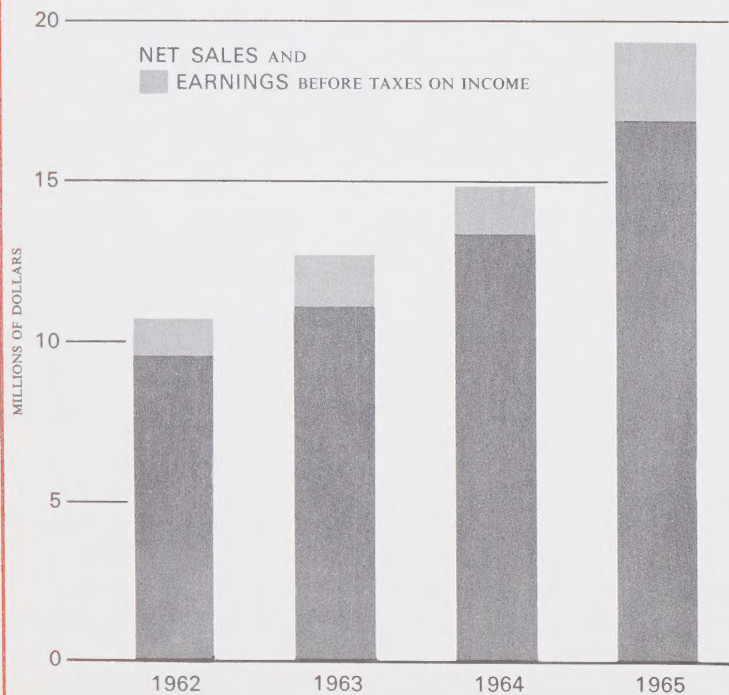
On January 22, 1965, your Board of Directors declared the first dividend since we became a public company. As a result of continued profitable operations, a second dividend of fifty cents per share was declared on January 24, 1966, to shareholders of record on February 25, 1966, payable on March 18, 1966. Once again the largest single shareholder, Fruehauf Corporation (U.S.) has waived its right to the dividend, enabling these funds to remain profitably employed in the company. This action, while having a definite benefit on our funds position, simultaneously enhances the equity of all other shareholders. We take this opportunity to advise holders of warrants issued in connection with the 5¼% Sinking Fund Debentures that such warrants expire at 4.00 p.m. Toronto time on November 1, 1966.

With the rise in volume and resultant increases in our notes receivable portfolio, funds previously invested in short term securities were more profitably used in the business. Thus, only \$500,000 was paid on the note owing to Fruehauf Corporation and no 5¼% Sinking Fund Debentures were redeemed during the year. We are still in the desirable position of having fulfilled all Sinking Fund requirements until November 1, 1968, and have an adequate line of credit for our projected cash requirements through 1966.

The growth achievement of the current year exceeded the expansion of the Canadian economy and as a result we continued to increase our leadership in the truck-trailer field. Early in the year we produced a prototype model of

the Government Stainless Steel Aircraft Refueller. The unit passed exhaustive company tests and was then turned over to the Government testing authority and underwent approximately five months of critical operational testing, including varied simulated extreme climatic conditions. As a result it was year end before the refueller unit was cleared for production. We have immediately swung the carefully developed production program into effect and the first production models will roll off the line by mid-spring. The planned program will steadily accelerate, reaching full schedule by mid-summer. The remaining 149 refueller units which will be produced throughout 1966 and early 1967 will have a stabilizing effect on production. An ancillary benefit from this contract will be the development of production line methods for tank production. As a result of the short supply of many qualified skills, and to improve our labour force, we have undertaken an important step at our main manufacturing location, instituting formal courses for employee training and education. This program should have beneficial results for both the company and employee. Again, in the coming year, we would expect to operate with relative unanimity in our total working force.

We are continuing our program of controlled equipment and method improvement. Recently we installed an electric "stacking crane" complex at our Dixie manufacturing plant. This system enables steel and aluminum lifts weighing as much as five tons to be unloaded and stored on various stack levels to a height of twenty-two feet in a matter of seconds, and is also used to deliver precise size requirements to hydraulic processing tables. Many additional production line improvements have been installed during the last year as a result of detailed savings studies. During 1965 it had been planned to construct a new branch in Quebec city to replace inadequate rented premises. This, however, was re-scheduled until a proposed new Provincial highway plan was finalized. This highway will now run adjacent to our new location and the building should



be completed in the coming year. Plans are presently being developed for the enlargement of six of our other branch locations, which will ensure our customers, coast to coast, of the most efficient truck trailer repair service. As our present branch locations serve the principal economic areas, we believe it prudent at this time to enlarge existing premises rather than establish additional centres in 1966.

The outlook for the Canadian trailer industry in 1966 would generally indicate a good business year. However, the current labour unrest with many Ontario based transport companies could have some bearing on total road transportation equipment requirements. Our projections would indicate a year of moderate increase over 1965. The operation of your company is geared to industry needs and our service and production facilities are constantly scrutinized to provide our customers with the ultimate in "Total Transportation".

Over the years since becoming a public company, it has been our earnest desire to bring to you, the shareholder, and to the interested public, a high standard of financial disclosure in the Annual Report. On many occasions our report has received prominent mention in various financial polls and reviews. It is particularly gratifying to your directors that The Canadian Institute of Chartered Accountants in their sixth edition "Financial Reporting in Canada" selected our complete 1964 financial statements as an example of the essential features of good financial reporting. We will certainly continue our efforts in this regard.

The progress of your company is a reflection of the loyalty and untiring efforts of all of our employees. We take this opportunity to extend our sincere appreciation to each employee, to our distributors and dealers, and to our customers for the confidence they have expressed through the continued use of our products.

On behalf of the Board

W. E. Grace
President

R. J. Telford
Vice President

March 28, 1966



STATEMENT OF NET EARNINGS

YEARS ENDED DECEMBER 31, 1965 AND DECEMBER 31, 1964

	<u>1965</u>	<u>1964</u>
REVENUES		
Commercial sales.....	\$19,268,122	\$14,837,231
Defence sales.....	80,034	29,792
NET SALES.....	\$19,348,156	\$14,867,023
Finance revenue.....	632,095	654,197
Miscellaneous.....	18,565	106,886
	<u>\$19,998,816</u>	<u>\$15,628,106</u>
COST AND EXPENSES		
Cost of products and service sold, other than items below.....	\$15,050,404	\$11,951,467
Selling and administrative expenses.....	1,470,490	1,257,888
Depreciation.....	573,113	420,003
Taxes — property, payroll, and miscellaneous.....	183,177	174,162
Interest on long-term debt.....	254,604	253,098
	<u>\$17,531,788</u>	<u>\$14,056,618</u>
EARNINGS BEFORE TAXES ON INCOME.....	\$ 2,467,028	\$ 1,571,488
Taxes on income.....	<u>1,285,000</u>	<u>767,000</u>
NET EARNINGS.....	<u>\$ 1,182,028</u>	<u>\$ 804,488</u>

BALANCE SHEETS • FRUEHAUF TRAILER COMPANY OF CANADA

ASSETS

	December 31, 1965	December 31, 1964
CURRENT ASSETS		
Cash (including marketable securities of \$2,435,671 in 1964)	\$ 235,857	\$ 2,877,220
Trade receivables		
Installment contracts (including installments of approximately \$4,387,000 maturing after one year) less unearned finance charges of \$800,991 at December 31, 1965	\$ 7,045,080	\$ 5,449,427
Accounts receivable	2,518,615	1,685,204
	\$ 9,563,695	\$ 7,134,631
Less allowance for doubtful receivables	120,000	105,000
	\$ 9,443,695	\$ 7,029,631
Inventories (Note A)	5,061,049	3,765,003
Prepaid expenses	45,514	54,637
TOTAL CURRENT ASSETS	\$14,786,115	\$13,726,491
INVESTMENTS AND OTHER ASSETS		
Equipment leased to customers — at lower of cost or appraised value, less accumulated depreciation of \$684,542 at December 31, 1965	\$ 1,155,984	\$ 585,318
Miscellaneous investments	136,142	152,008
	\$ 1,292,126	\$ 737,326
PROPERTY, PLANT AND EQUIPMENT		
Land — at cost	\$ 561,610	\$ 474,979
Buildings and equipment — at cost	2,302,272	2,300,702
Machinery and other equipment — at cost	2,385,520	2,125,797
	\$ 5,249,402	\$ 4,901,478
Less accumulated depreciation	1,874,832	1,675,236
	\$ 3,374,570	\$ 3,226,242
UNAMORTIZED DEBENTURE EXPENSES	58,544	63,948
TOTAL ASSETS	\$19,511,355	\$17,754,007



LIMITED (*Incorporated under the Canada Corporations Act*)

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	December 31, 1965	December 31, 1964
CURRENT LIABILITIES		
Accounts payable and accrued expenses		
Trade accounts.....	\$ 1,390,071	\$ 824,547
Salaries, wages, and employee benefits.....	307,985	191,331
Taxes — property, payroll, and sales.....	186,690	142,159
Interest.....	17,311	17,414
	<u>\$ 1,902,057</u>	<u>\$ 1,175,451</u>
Taxes on income.....	796,391	707,188
Due to Fruehauf Corporation.....	536,534	285,423
TOTAL CURRENT LIABILITIES.....	\$ 3,234,982	\$ 2,168,062
OTHER LIABILITIES		
Deferred taxes on income.....	\$ 83,400	\$ 36,000
4% Note to Fruehauf Corporation.....	3,500,000	4,000,000
5¼% Sinking Fund Debentures, Series "A" due November 1, 1976; redemption price to November 1, 1966, 102¾%, decreasing ¼ of 1% each year thereafter; annual sinking fund requirements of \$150,000 (no sinking fund payments required until 1968).....	<u>1,973,000</u>	<u>1,973,000</u>
	<u>\$ 5,556,400</u>	<u>\$ 6,009,000</u>
SHAREHOLDERS' INVESTMENT		
Capital stock, without nominal or par value		
Authorized 2,000,000 shares (Note B)		
Issued and outstanding 900,000 shares.....	\$ 5,125,000	\$ 5,125,000
Earnings retained for use in the business.....	<u>5,594,973</u>	<u>4,451,945</u>
	<u>\$10,719,973</u>	<u>\$ 9,576,945</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Notes C and D)		
On behalf of the Board		
E. L. RUSHMER, <i>Director</i>		
R. J. TELFORD, <i>Director</i>		
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT.....	<u>\$19,511,355</u>	<u>\$17,754,007</u>

STATEMENT OF EARNINGS RETAINED FOR USE IN THE BUSINESS

YEARS ENDED DECEMBER 31, 1965 AND DECEMBER 31, 1964

	1965	1964
Balance at beginning of year.....	\$4,451,945	\$3,647,457
Net earnings for the year.....	1,182,028	804,488
	<u>\$5,633,973</u>	<u>\$4,451,945</u>
Less		
Cash dividends paid, \$0.50 a share on 78,000 shares (Note B).....	39,000	—
Balance at end of year.....	<u>\$5,594,973</u>	<u>\$4,451,945</u>

STATEMENT OF WORKING CAPITAL

YEARS ENDED DECEMBER 31, 1965 AND DECEMBER 31, 1964

	1965	1964
SOURCES OF WORKING CAPITAL		
OPERATIONS		
Net earnings.....	\$ 1,182,028	\$ 804,488
Depreciation of equipment leased to customers.....	295,384	158,510
Depreciation of plant and equipment.....	277,729	261,493
TOTAL FROM OPERATIONS.....	<u>\$ 1,755,141</u>	<u>\$ 1,224,491</u>
OTHER		
Proceeds from sale of land.....	—	\$ 119,217
Increase in deferred taxes on income.....	\$ 47,400	36,000
Decrease in miscellaneous investments.....	15,866	15,020
Miscellaneous.....	5,404	7,337
	<u>\$ 1,823,811</u>	<u>\$ 1,402,065</u>
APPLICATION OF WORKING CAPITAL		
Cash dividend.....	\$ 39,000	—
Additions to property, plant, and equipment, less disposals.....	426,057	\$ 168,859
Additions to equipment leased to customers, less disposals.....	866,050	241,382
Payment on 4% Note to Fruehauf Corporation.....	500,000	1,300,000
Purchase of 5¼% Sinking Fund Debentures, Series "A".....	—	55,000
	<u>\$ 1,831,107</u>	<u>\$ 1,765,241</u>
NET DECREASE IN WORKING CAPITAL FOR YEAR.....	<u>\$ 7,296</u>	<u>\$ 363,176</u>
WORKING CAPITAL AT BEGINNING OF YEAR.....	<u>11,558,429</u>	<u>11,921,605</u>
WORKING CAPITAL AT END OF YEAR.....	<u>\$11,551,133</u>	<u>\$11,558,429</u>



NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1965

Note A — Inventories

Inventory amounts are based upon physical determinations during the year and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method, and market prices represent the lower of replacement cost or estimated net realizable amount.

A summary of inventories follows

	December 31,	
	1965	1964
New trailers.....	\$ 948,720	\$ 736,691
Production parts, work in process, and raw materials.....	2,125,766	1,341,048
Service parts and orders in process.....	1,513,763	1,292,879
Used trailers — at appraised values, less estimated disposal costs.....	472,800	394,385
	<u>\$5,061,049</u>	<u>\$3,765,003</u>

Note B — Shareholders' Investment

Authorized capital of the company to the extent of 87,500 shares is reserved for issuance upon the exercise of stock purchase warrants issued with the 5¼% Sinking Fund Debentures, Series "A". Warrants which entitle holders to purchase shares at \$12.50 per share expire on November 1, 1966.

A dividend of \$0.50 per share was paid during the year on the outstanding shares of the Company, exclusive of the 822,000 shares owned by Fruehauf Corporation which waived its right to the dividend otherwise payable.

Note C — Long-term Leases

The company is lessee under long-term leases for the sales and service branches. The annual rental on such properties will approximate \$178,000 in 1966, exclusive of taxes, insurance, maintenance, and repairs, which are also payable by the company. The company has the right to purchase three of these properties and if these rights were exercised, the aggregate purchase price would amount to approximately \$1,060,000.

Note D — Pensions

Unfunded past service costs of pension plans covering certain employees amounting to approximately \$218,000 at December 31, 1965, are being amortized over thirty-year periods. The amount charged to operations in 1965 for such plans was \$70,774.

AUDITORS' REPORT

The Shareholders,
Fruehauf Trailer Company of Canada Limited.

We have examined the balance sheet of Fruehauf Trailer Company of Canada Limited as at December 31, 1965 and the related statements of net earnings, net earnings retained for use in the business and working capital for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statements of net earnings, net earnings retained for use in the business and working capital present fairly the financial position of the company as at December 31, 1965, the results of its operations and working capital for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 8, 1966.


Chartered Accountants.

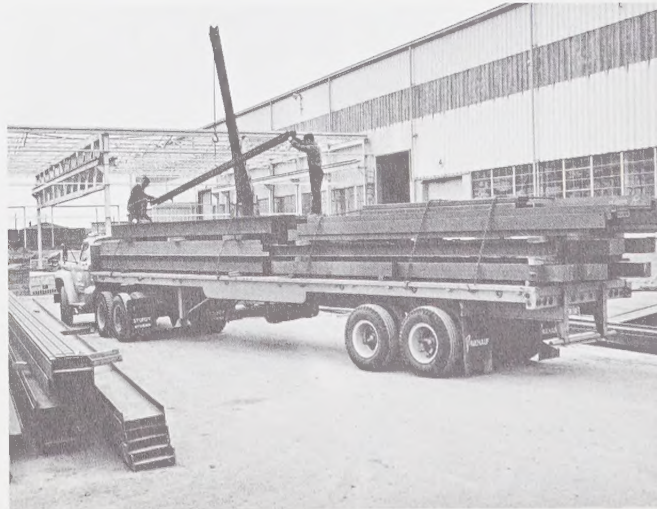
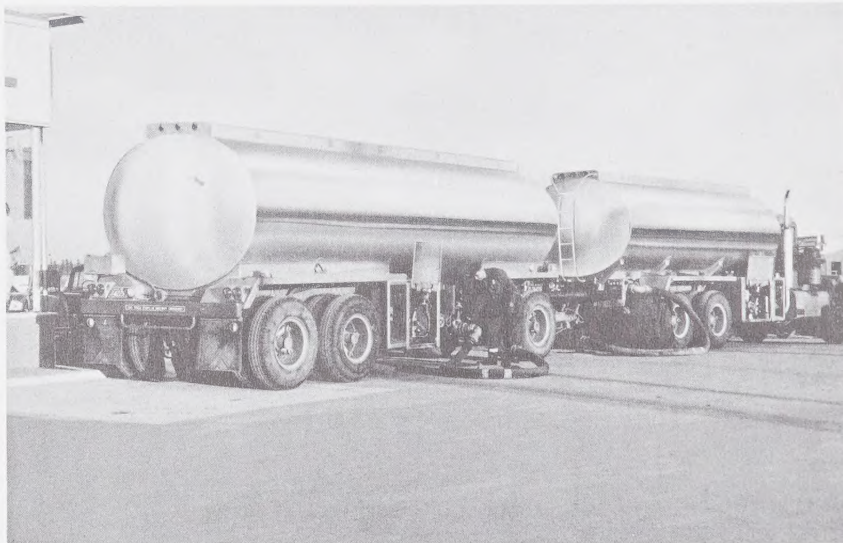
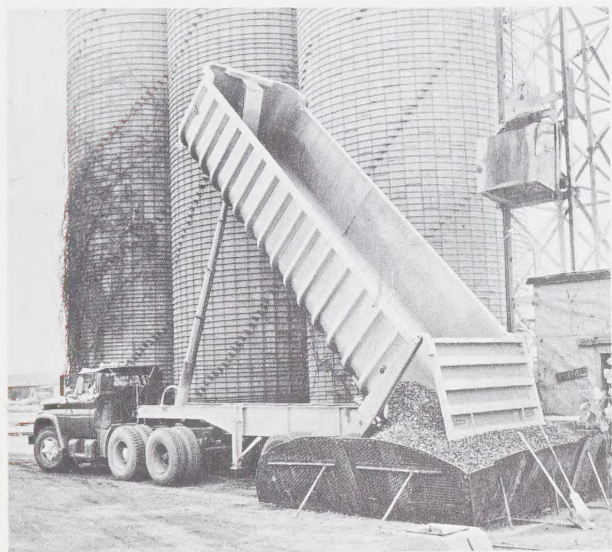
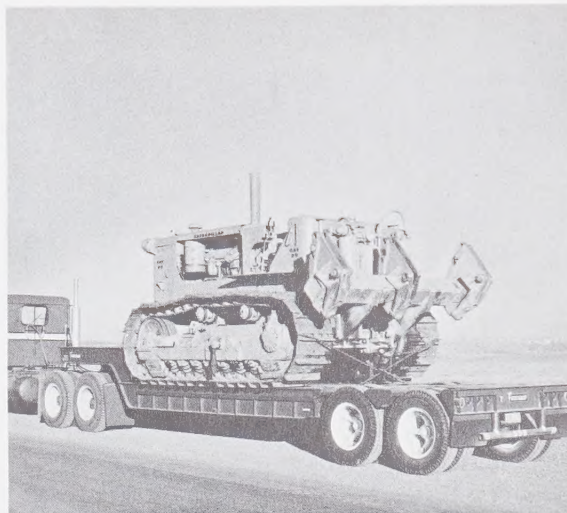
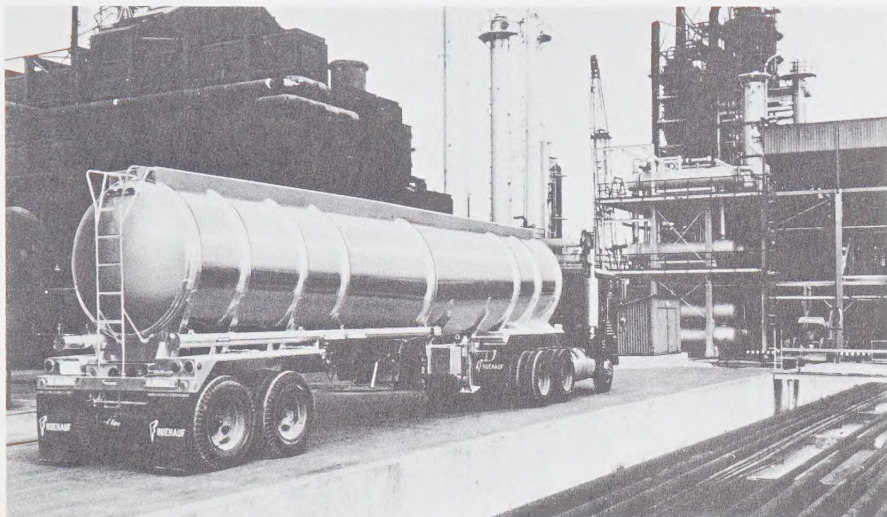
COMPARISON OF OPERATIONS

	1965	1964	1963	1962	1961	1960
REVENUES						
Net sales.....	\$19,348,156	\$14,867,023	\$12,627,354	\$10,787,579	\$ 8,899,590	\$10,266,643
Earnings (before taxes on income) of and interest from Trailer Acceptance Company Limited.....					116,184	122,387
Finance revenue.....	632,095	654,197	813,864	795,921	89,990	15,281
Miscellaneous.....	18,565	106,886	43,524	63,802	179,020	71,011
	<u>\$19,998,816</u>	<u>\$15,628,106</u>	<u>\$13,484,742</u>	<u>\$11,647,302</u>	<u>\$ 9,284,784</u>	<u>\$10,475,322</u>
COSTS AND EXPENSES						
Cost of products and service sold, other than items below.....	\$15,050,404	\$11,951,467	\$10,101,333	\$ 8,748,598	\$ 7,609,416	\$ 9,047,841
Selling and administrative expenses.....	1,470,490	1,257,888	1,021,817	965,621	1,023,639	1,223,790
Depreciation.....	573,113	420,003	393,880	351,887	381,278	377,233
Taxes — property, payroll and miscellaneous....	183,177	174,162	171,735	160,600	150,572	162,775
Interest on long-term debt..	254,604	253,098	271,331	279,300	132,276	168,617
	<u>\$17,531,788</u>	<u>\$14,056,618</u>	<u>\$11,960,096</u>	<u>\$10,506,006</u>	<u>\$ 9,297,181</u>	<u>\$10,980,256</u>
Earnings (Loss) before Taxes on Income....	\$ 2,467,028	\$ 1,571,488	\$ 1,524,646	\$ 1,141,296	\$ (12,397)	\$ (504,934)
Taxes on income.....	1,285,000	767,000	32,000	14,982	14,600	43,300
NET EARNINGS (LOSS).	<u>\$ 1,182,028</u>	<u>\$ 804,488</u>	<u>\$ 1,492,646</u>	<u>\$ 1,126,314</u>	<u>\$ (26,997)</u>	<u>\$ (548,234)</u>
Net earnings (loss) from each dollar of net sales.....	6.1¢	5.4¢	11.8¢	10.4¢	(0.3¢)	(5.3¢)



FRUEHAUF — TOTAL TRANSPORTATION

Pictured below are but a few of the many types of trailers manufactured by your Company. Regular or Specialized haul, Fruehauf produces the exact unit requirement.



FRUEHAUF — COAST TO COAST

Across Canada, your Company provides a complete service for its many customers. Sales and Service Centres are located in principal cities to keep Fruehauf vehicles on the move. In addition your Company has distributors or dealers throughout the length and breadth of Canada.

HEAD OFFICE



QUEBEC



MONTREAL



TORONTO



LONDON



WINNIPEG



CALGARY

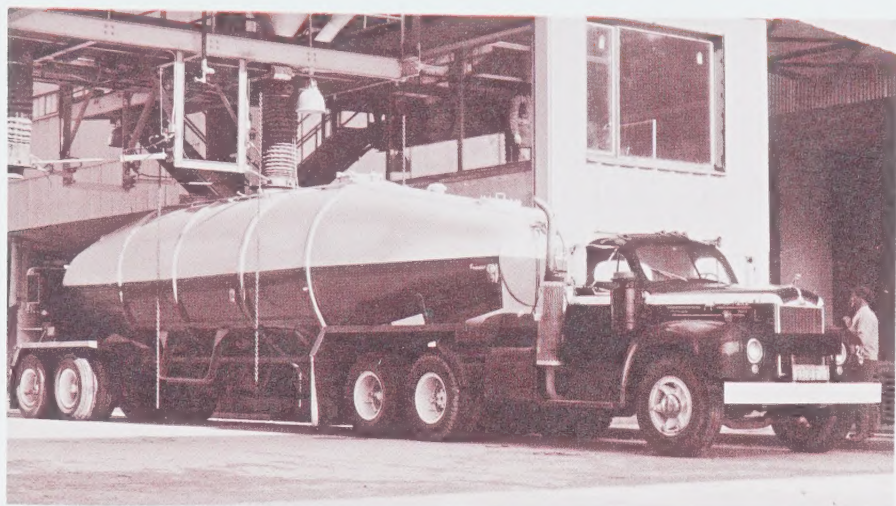


EDMONTON



VANCOUVER







FRUEHAUF TRAILER COMPANY OF CANADA LIMITED